

Joint Economic Committee WEEKLY ECONOMIC DIGEST

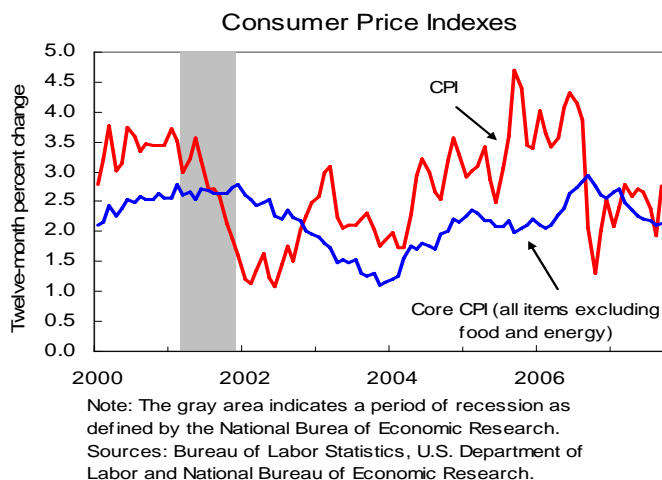
Senator Charles Schumer, Chairman
Congresswoman Carolyn Maloney, Vice Chair

October 22, 2007

ECONOMIC NEWS

Underlying Inflation Stays Tame as Weakness in Production and Homebuilding Continues

Rising food and energy prices boosted overall consumer prices, but core inflation held steady in September. The consumer price index (CPI) increased by 0.3 percent last month, following a 0.1 percent decline in August. The prices consumers pay for energy rose by 0.3 percent, following declines through the summer. Inflation in food prices edged up to 0.5 percent in September, as compared with 0.4 percent the previous month. However, core CPI inflation (which excludes changes in the volatile prices of food and energy) remained at 0.2 percent for the fourth consecutive month. Over the past 12 months, the overall CPI has risen by 2.8 percent, and the core CPI by 2.1 percent (see chart).



Industrial production remained weak last month. Total production in manufacturing, mining, and utilities rose by 0.1 percent in September, after posting no change in August. Industrial production has grown by 1.9 percent over the past 12 months. Factory production increased 0.1 percent last month, following a 0.4 percent drop in August. Manufacturing output has risen at a meager 1.6 percent rate over the past 12 months.

New homebuilding dropped further in September. New construction of privately owned housing fell by 10.7 percent last month to 1.191 million units at an annual rate. That drop followed declines of 3.2 percent in August, and 6.6 percent in July. Over the past 12 months, new homebuilding has fallen by 30.8 percent and is currently at its lowest level in more than 15 years. Permits for new residential construction of all types declined by 7.3 percent in September, and have fallen by 25.9 percent over the past 12 months.

IN FOCUS

No End in Sight for the Housing Slump

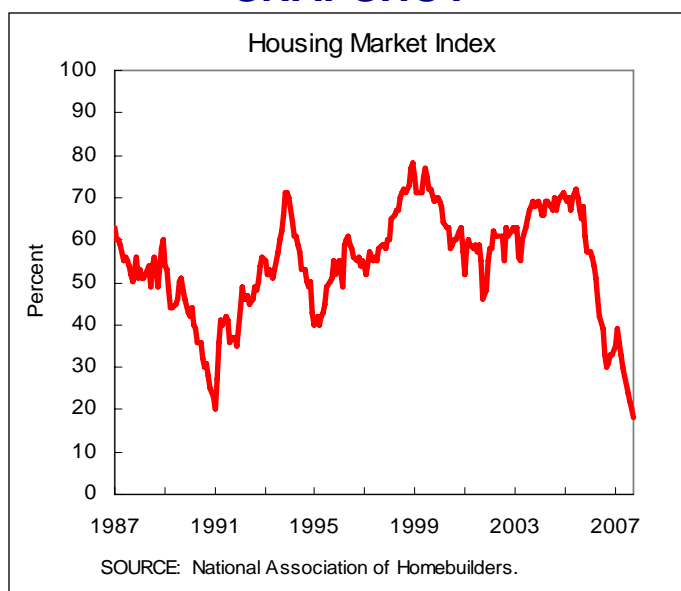
In his speech at the Georgetown University Law Center last Tuesday, Treasury Secretary Paulson stated: "the housing decline is still unfolding and I view it as the most significant current risk to our economy. The longer housing prices remain stagnant or fall, the greater the penalty to our future economic growth." The housing slump continues to be a drag on overall growth and employment and the risks of it spreading to other sectors remains the paramount risk to the outlook for near-term growth.

Although official data will not be released till later this month, housing is nearly certain to have been a drag on overall economic growth again in the third quarter. Real (inflation-adjusted) residential investment—a measure that combines new and ongoing construction spending, repair and alteration expenditures, and brokers' commissions on new and existing home sales—declined at an 11.8 percent annual rate in the second quarter. That drop sliced 0.6 percentage point from overall economic growth. New homebuilding, the only component of residential investment currently available for the entire third quarter, declined at a 38.6 percent annual rate in the third quarter, following a 1.1 percent rise in the second quarter.

The housing slump has also taken its toll on jobs. Residen-

Continued on reverse...

SNAPSHOT



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THE WEEK AHEAD

DAY

RELEASE

Wednesday, Oct 24 Existing-Home Sales (September 2007)

Wednesday, Oct 25 Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders (September 2007)
New Residential Sales (September 2007)

**Wednesday
Oct 25th:
New home
sales for
September**

THE ECONOMY AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	Sep	Aug	Jul	2007 Q3	2007 Q2	2007 Q1	2006	2005
Real GDP Growth (%)	—	—	—	n.a.	3.8	0.6	2.9	3.1
Unemployment (% of labor force)	4.7	4.6	4.6	4.7	4.5	4.5	4.6	5.1
Labor Productivity Growth (%)	—	—	—	n.a.	2.6	0.7	1.0	1.9
Labor Compensation Growth (%)	—	—	—	n.a.	3.6	3.2	3.1	3.3
CPI-U Inflation (%)	3.7	-1.2	1.2	1.9	6.0	3.8	3.2	3.4
Core CPI-U Inflation (%)	2.4	2.4	2.4	2.5	1.9	2.3	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

IN FOCUS (Continued)

tial construction payrolls declined by 0.6 percent in September, the 16th monthly decline of the past 18 months. Payrolls have declined by 4.5 percent over the past 12 months. Moreover, construction employment weakened at a faster pace in the third quarter than in the second: payrolls dropped at a 3.6 percent annual rate in the third quarter, following a 1.2 percent decline in the second.

Secretary Paulson's remarks came a day before the Federal Reserve released its latest "Beige Book," an assembly of regional economic assessments published every six weeks. Based on information gathered through October 5, the Beige Book noted a deceleration in overall economic activity since August, some easing in the growth of consumer spending and jobs in some regions, and "additional declines in home sales, prices and construction."

Homebuilders surveyed by the National Association of Home Builders (NAHB) are more pessimistic than ever before. The NAHB's Housing Market Index (HMI)—a statistic that reflects homebuilders' ratings for current and prospective sales of single-family homes as well as buyer traffic—sank to 18 percent in October (see Snapshot). In other words, only 18 percent of the homebuilders surveyed are upbeat about the near-term outlook for housing. That is the most pessimistic homebuilder assessment since the NAHB began reporting that measure for 1985.

Moreover, last week's report on construction permits further underscores the pessimism of the homebuilders' survey. Permits for the construction of new single-unit homes declined by 7.1 in September, to 868,000 units at an annual rate. That is 28.6 percent below last September's already weak pace and, indeed, the lowest rate of permit issuance in over 15 years.

Pessimism among homebuilders as to the near-term outlook for housing was pervasive across regions. In September, permits for single-unit housing declined by 13.3 percent in the West (down 34.6 percent over the past year), 9.2 percent in the Northeast (down 16.0 percent over the past year), 4.7 percent in the South (down 30.4 percent over the past year), and 4.4 percent in the Midwest (down 19.3 percent over the past year).

At some point, the housing slump will end. But, as Secretary Paulson stated, that end is not yet in sight.